

Message Text

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22

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00

SSO-00 USIE-00 INRE-00 AID-05 COME-00 EB-07 FRB-01

INR-07 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

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INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: NEW MONETARY MEASURES

REF: A. ROME 1678, B. ROME 1859,

/SUMMARY/. ON FEBRUARY 4 INTERMINISTERIAL CREDIT AND SAVINGS COMMITTEE APPROVED: (1) RISES IN BANK RESERVE REQUIREMENTS, (2) REDUCTION IN PERIOD DURING WHICH FOREIGN EXCHANGE HELD IN FOREIGN CURRENCY ACCOUNTS MUST BE SOLD TO EXCHANGE OFFICE, AND (3) AUTHORIZATION FOR ESTABLISHMENT OF UNCLASSIFIED

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SPECIAL FOREIGN CURRENCY ACCOUNTS IN ITALY BY ITALIAN EMIGRANTS

ABROAD. MEASURES, WHICH MUST BE FORMALIZED BY MINISTERIAL DECREE, WERE TAKEN TO COMPLEMENT RECENT INCREASE IN DISCOUNT RATE (REF A) AND ARE AIMED AT REDUCING DOMESTIC LIQUIDITY AND STRENGTHENING OF LIRA IN EXCHANGE MARKETS. ECONOMIC PROGRAM OF PROPOSED NEW GOVERNMENT BEING REPORTED SEPTEL. /END SUMMARY/.

1. /RESERVE REQUIREMENTS/. CURRENT BANK RESERVE REQUIREMENT OF 15 PERCENT HAS BEEN RAISED TO 15.75 PERCENT. INCREASE IS APPLICABLE BOTH TO AMOUNT OF BANK DEPOSITS OUTSTANDING ON DECEMBER 31, 1975 AND TO MONTHLY INCREASES IN DEPOSITS WHICH OCCUR DURING COURSE OF 1976. NEW RESERVE DEPOSITS WITH BOI ARE EXPECTED TO RISE BY ABOUT 600 BILLION LIRA AGAINST OLD BANK DEPOSITS AND ABOUT 150 BILLION LIRE AGAINST NEW DEPOSITS. NEW RESERVE DEPOSITS MUST BE MADE WITH BANK OF ITALY, ONE HALF BY END FEBRUARY AND ONE-HALF IN APRIL AGAINST BANK DEPOSITS EXISTING AT END-1975.

2. /EXCHANGE CONTROLS/. MAXIMUM PERIOD DURING WHICH BALANCES IN CONVERTIBLE CURRENCIES MAY BE RETAINED IN FOREIGN EXCHANGE ACCOUNTS WITH AGENT BANKS HAS BEEN REDUCED FROM PRESENT 30 TO 60 DAYPERIOD TO 15 DAYS. (DURING THIS PERIOD, BALANCES IN ACCOUNTS MAY BE USED FOR PERMISSIBLE TRANSACTIONS; AT END OF THE PERIOD RESIDUAL BALANCES MUST BE SOLD TO ITALIAN EXCHANGE OFFICE.) AS ONE-TIME MEASURE, BALANCES ALREADY IN THESE ACCOUNTS MUST BE SURRENDERED BY FEBRUARY 11.

3. AUTHORIZATION WAS ALSO APPROVED BY CREDIT COMMITTEE FOR ESTABLISHMENT WITH ITALIAN BANKS OF SPECIAL FOREIGN CURRENCY ACCOUNTS FOR REMITTANCES BY ITALIAN EMIGRANTS WITHIN CERTAIN LIMITS STILL TO BE ESTABLISHED.

4. /COMMENT/. TAKEN BY CREDIT COMMITTEE TO REDUCE LIQUIDITY AND STRENGTHEN LIRA WERE EXPECTED (REF B), FOLLOWING RECENT INCREASE IN DISCOUNT RATE AND CONTINUED WEAKNESS OF LIRA IN EXCHANGE MARKETS. GRADUAL REDUCTION IN BANK LIQUIDITY FROM INCREASE IN RESERVE REQUIREMENTS SHOULD HELP TO REDUCE LIQUIDITY AVAILABLE FOR FINANCING CAPITAL FLIGHT. SIMILARLY, RECENT GENERALIZED INCREASE IN SHORT-TERM INTEEST RATES (E.G., PRIME RATE, INTER-BANK RATE AND TREASURY BILL RATES), PLUS RISE IN LIRA EXCHANGE RATE, ITSELF, WILL ALSO MAKE CAPITAL OUTFLOWS UNCLASSIFIED

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MORE COSTLY. MEASURE TO REDUCE PERIOD DURING WHICH FOREIGN EXCHANGE BALANCES MAY BE RETAINED IN FOREIGN CURRENCY ACCOUNTS IS DESIGNED TO FORCE HOLDERS OF THESE BALANCES TO SELL FOREIGN EXCHANGE RETAINED IN THESE ACCOUNTS, RATHER THAN WAITING FOR FURTHER DECLINE IN LIRA RATE. AUTHORIZATION FOR ESTABLISHMENT OF SPECIAL FOREIGN EXCHANGE ACCOUNTS BY ITALIAN EMIGRANTS IS MEANT TO ENCOURAGE THEM TO REPATRIATE THEIR FOREIGN EXCHANGE EARNINGS DIRECTLY TO ITALY AND TO PROTEST THEM AGAINST LIRA

DEPRECIATION. (DURING PREVIOUS LIRA CRISES EMIGRANTS HAVE OFTEN
CONVERTED THEIR FOREIGN CURRENCY EARNINGS ABROAD AT MORE
FAVORABLE EXCHANGE RATES THAN OFFICIAL RATES AVAILABLE IN ITALY.
FREQUENTLY, OTHER PARTY TO TRANSACTION WAS ITALIAN RESIDENT WHO
WOULD MAKE LIRE AVAILABLE TO FAMILIES IN ITALY IN RETURN FO
FOREIGN CURRENCY DEPOSIT IN HIS NAME ABROAD.).VOLPE

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